

**Office of the Comptroller of the Treasury**

**For the Year Ended  
June 30, 1998**

***Arthur A. Hayes, Jr., CPA***

Director

***Charles K. Bridges, CPA***

Assistant Director

***Ronald E. Anderson, CPA***

Audit Manager

***Cynthia S. Singleton***

In-Charge Auditor

***Jim Ehmann, CPA***

***DenNetria A. Chislom***

Staff Auditor

***Jane Russ***

Editor

January 7, 1999

Members of the General Assembly  
and  
The Honorable William R. Snodgrass  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Office of the Comptroller of the Treasury for the year ended June 30, 1998.

Since we are not independent with respect to the Office of the Comptroller of the Treasury, we do not express any assurance on internal control and on compliance. Our audit disclosed a finding, which is detailed in the Objectives, Methodologies, and Conclusions section of this report. Administration of the Comptroller's Office has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Very truly yours,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/rm  
98/097

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Office of the Comptroller of the Treasury**  
For the Year Ended June 30, 1998

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## AUDIT SCOPE

Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, accounts receivable, expenditures, equipment, property tax relief, and state-assessed properties.

The auditors are not considered independent of the audited entity because they are employees of the Comptroller of the Treasury.

## AUDIT FINDING

### **Inadequate Controls Over Additions and Changes to the POST Inventory System**

The Property of the State of Tennessee (POST) inventory system for the Comptroller's Office contains incomplete and inaccurate information. The POST system did not list serial numbers for 13 of 25 items tested, and 14 of 25 stolen items were still listed on the inventory system. (page 6).

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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**Audit Report**  
**Office of the Comptroller of the Treasury**  
**For the Year Ended June 30, 1998**

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# Office of the Comptroller of the Treasury For the Year Ended June 30, 1998

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## INTRODUCTION

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### POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Office of the Comptroller of the Treasury. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### BACKGROUND

The Comptroller of the Treasury is a constitutional officer elected by a joint vote of the General Assembly for a two-year term. Although no duties are prescribed through the constitution, the functions and duties of the office are assigned through various legislative enactments.

The Office of the Comptroller of the Treasury is organized into several divisions to discharge its statutory duties. The basic functions of each division are described below.

The Division of Administration provides administrative services for all divisions of the Comptroller’s Office.

The Office of Management Services provides fiscal services for all divisions.

The Capitol Print Shop provides duplicating and printing services for the General Assembly and other legislative agencies.

The Division of State Audit is responsible for the post-audits of the departments and agencies in state government, including the Single Audit of the State of Tennessee. The Medicaid/TennCare section of the division provides audit and consulting services for the Medicaid nursing facility, intermediate care facility for the mentally retarded, and the TennCare programs.

The Division of County Audit is responsible for the post-audit of the accounts and records of all county offices in each of the state’s 95 counties.

The Division of Municipal Audit monitors the audits of all municipal governments, special districts, and school activity funds in the state.

The Division of Bond Finance is responsible for the management of the state debt, including the issuance of all bonds and notes and the payment of bonds and coupons.

The Division of Local Finance is responsible for the management of certain local governments' debts.

The Office of Local Government formulates policies and guidelines on issues relevant to local government and provides information and assistance to local government officials. The office maintains precinct maps, assists local governments with reapportionment and redistricting, and acts as liaison with the Bureau of the Census. The office also calculates the distribution schedule for the Tennessee Revenue Sharing Act.

The Offices of Research and Education Accountability are responsible for providing research and analyses to the General Assembly, the Comptroller, other state agencies, and the public on issues affecting state and local governments and for improving the accountability of Tennessee's education system.

The Division of Property Assessments is responsible for assisting local governments in assessing property for tax purposes throughout the state, for administering the property tax relief program, and for carrying out the statewide reassessment program.

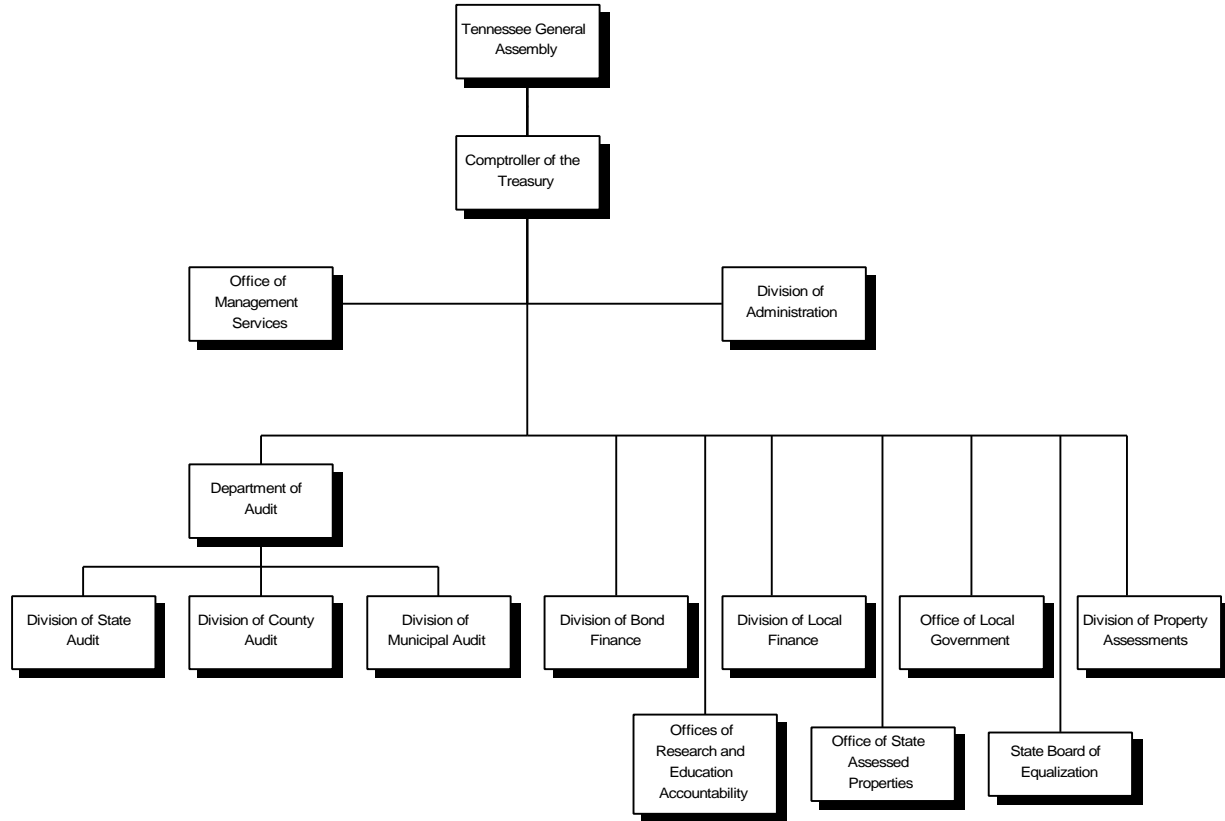
The Tax Relief Program provides funds for refunding property taxes to qualified taxpayers, in accordance with Section 67-5-701, *Tennessee Code Annotated*.

The State Board of Equalization, a quasi-judicial body attached to the Comptroller's Office for administrative purposes, is responsible for developing policies and procedures governing property taxation and for hearing appeals from property owners.

The Office of State Assessed Properties is responsible for the annual appraisal and assessment of all public utility and transportation properties as prescribed in *Tennessee Code Annotated*. These assessments are certified to counties, cities, and other taxing jurisdictions for the billing and collection of property taxes.

An organization chart of the department is on the following page.

Office of the Comptroller of the Treasury  
Organization Chart





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## **AUDIT SCOPE**

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Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, accounts receivable, expenditures, equipment, property tax relief, and state-assessed properties.

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## **OBJECTIVES, METHODOLOGIES, AND RESULTS**

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### **REVENUE**

Our objectives in reviewing revenue transactions were to determine whether

- revenue transactions appeared accurate and valid,
- cash collected during the fiscal year was deposited timely and accounted for in the appropriate fiscal year,
- fees had been billed or charged and recorded at the correct amount, and
- petty cash or change funds had been authorized in accordance with state regulations.

We discussed collection and receipt controls and procedures with key management personnel to gain an understanding of the office's procedures for these areas. We reviewed supporting documentation and tested a sample of transactions to determine that the office had complied with the state's rules and regulations.

We had no findings related to revenue.

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### **ACCOUNTS RECEIVABLE**

Our objectives in reviewing accounts receivable transactions were to determine whether

- revenue amounts uncollected at the end of the fiscal year were recorded as receivables,
- receivables were stated at the net realizable amount,
- management performed adequate collection efforts, and
- receivables shown on the books were actual receivables, and whether cash had not already been received to reduce the amounts.

We discussed recording and collection controls and procedures with key management personnel to gain an understanding of the office's procedures for these areas. We reviewed supporting documentation and tested a sample of transactions to determine that the office had complied with the state's rules and regulations.

We had no findings related to accounts receivable; however, other minor weaknesses came to our attention and were reported to management in a separate letter.

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## **EXPENDITURES**

Our objectives in reviewing expenditure transactions were to determine whether

- expenditures were for goods and services that were authorized and received,
- payments were made in a timely manner,
- records were reconciled with reports from the state's accounting system,
- payments for travel were made in accordance with the Comprehensive Travel Regulations,
- funds encumbered were liquidated for the same purpose as the original encumbrance, and
- procedures regarding year-end cutoff of encumbrances and accounts payable were adequate to reflect proper amounts and all material outstanding obligations.

We discussed disbursement, contract, and reconciliation controls and procedures with key management personnel to gain an understanding of the office's procedures for these areas. We reviewed supporting documentation and tested a sample of transactions to determine that the office had complied with the state's rules and regulations.

We had no findings related to expenditures.

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## **EQUIPMENT**

Our objectives in reviewing equipment were to determine whether equipment

- was properly safeguarded,
- was properly recorded on the property listing, and
- could be located.

We discussed controls and procedures over equipment with key management personnel to gain an understanding of the office's procedures for these areas. We tested a sample of equipment on the property listing to ensure that the information on the listing agreed with the actual item.

We determined that the controls over additions and changes to the Property of the State of Tennessee (POST) inventory system are not adequate as discussed in the finding. In addition to the finding, other minor weaknesses came to our attention and were reported to management in a separate letter.

### **Inadequate controls over additions and changes to the POST inventory system**

#### **Finding**

The Comptroller of the Treasury does not have adequate controls over additions and other changes made to the Property of the State of Tennessee (POST) inventory system. As a result, the inventory listing for property in the Comptroller's Office is not accurate.

- a. The POST system did not list serial numbers for 13 of 25 items tested (52%). The *Post User Manual*, page 22, states that a state tag identification number and the manufacturer serial number must be listed in POST.
- b. The POST system incorrectly listed 14 of 24 stolen items tested (58%) as current inventory. Because the stolen items had not been removed from the POST system, the property valuation for the Comptroller's Office was overstated by \$18,126.09. An adjusting entry was proposed to correct the valuation of inventory for the State of Tennessee's *Comprehensive Annual Financial Report*.

#### **Recommendation**

The Property Officer should follow the instructions in the *POST User Manual* and ensure that correct manufacturer serial numbers are entered on the POST system for new property. Although the in-house inventory system, separate from POST, did list serial numbers for these items, POST should be updated as well. Written procedures should be developed to ensure items that need to be deleted from the POST listing are removed in a timely manner.

#### **Management's Comment**

Management concurs. Procedures have been implemented to ensure that serial numbers are included in the POST System and stolen equipment is promptly removed from the equipment inventory.

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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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## **APPENDIX**

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### **DIVISIONS AND ALLOTMENT CODES**

Office of the Comptroller of the Treasury divisions and allotment codes:

307.01	Division of Administration
307.02	Office of Management Services
307.03	Capitol Print Shop
307.04	Division of State Audit
307.05	Division of County Audit
307.06	Division of Municipal Audit
307.07	Division of Bond Finance
307.08	Office of Local Government
307.09	Division of Property Assessments
307.10	Tax Relief Program
307.11	State Board of Equalization
307.12	Division of Local Finance
307.14	Offices of Research and Education Accountability
307.15	Office of State Assessed Properties

The Comptroller is a member of the following:

Advisory Committee on Intergovernmental Relations  
Baccalaureate Education System Trust  
Board of Claims  
Board of Equalization  
Board of Standards  
Building Commission  
Child Care Facilities Corporation  
Commodity Producers Indemnity Corporation  
Competitive Export Corporation  
Consolidated Retirement System Board of Trustees  
Council on Pensions and Insurance  
Funding Board  
Governor's Council on Health and Physical Fitness

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## **APPENDIX (Cont.)**

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Health Facilities Commission  
Higher Education Commission  
Housing Development Agency  
Information Systems Council  
Library and Archives Management Board  
Local Development Authority  
Local Education Insurance Committee  
Local Government Insurance Committee  
Public Records Commission  
Publications Committee  
School Bond Authority  
Security for Public Deposit Task Force  
Sports Festivals, Inc.  
State Capitol Commission  
State Insurance Committee  
State Trust of Tennessee Board of Directors  
Student Assistance Corporation  
Task Force on Not-for-Profit Accountability  
Tuition Guaranty Fund Board  
Utility Management Review Board  
Wastewater Financing Board  
Workers' Compensation Insurance Fund Board